

ASX Announcement

G8 Education Limited
(ASX: GEM)



29 May 2017

2017 – Chairman's Address

My fellow shareholders, I would like to formally welcome you to the 2017 Annual General Meeting for G8 Education Limited. During the year ended 31 December 2016 the Group maintained a balance between growing our network and continuously improving the quality of our services.

In terms of growth, the Group completed the acquisition of 19 centres in Australia and 2 in Singapore, bringing the total number of centres to 490 in Australia and 20 in Singapore by year-end. These centres provide a total combined licensed capacity of approximately 38,700 places.

As was the case in 2015, these were predominantly premium centres located in metropolitan areas, all of which were subject to the Group's rigorous screening and due diligence processes prior to settlement. The purpose of the Group is clear - to provide engaging care and education services that add value to families.

With over 75,000 children attending our services every week and 10,000 team members educating and caring for those children we have a responsibility to continually invest in our centres and people to deliver our purpose and maintain our position as the leading for profit provider of early education services in Australia.

In this respect, I am pleased to report that 2016 was a record year in terms of investment in people, facilities and capability. Capital investment in our centres totalled \$25m in the year, a \$4m increase on the prior year, while investment in professional development and leadership training across our centres and support office teams were also at record levels.

Examples of capability development include the roll-out of mobile apps to drive enhanced daily communication with families and automate the booking process for parents, the continued development of our curriculum by partnering with leaders in the industry, and our increased focus on safety and compliance.

From a financial perspective, even with the increased investment the Group generated good returns for shareholders during 2016. Revenues increased by 10% to \$778m, underlying Earnings Before Interest and Tax rose 10% to \$161m and underlying Net Profit After Tax grew by 7% to \$93m. This result came despite a lower-than-expected first half, where changes to child to staff ratios pursuant to the National Quality Framework increased wage costs across much of the network.

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Wage efficiency improved significantly in the second half, leading to strong growth in second half earnings compared to the prior year. Earnings Per Share growth reflected this pattern, with the full-year result of 3.4% growth being driven by a strong second half growth rate of 7%.

We are committed to continuing to invest in growing our network and enhancing the quality of service in our existing centres. To facilitate this growth, in February 2017 the Group signed an agreement to raise \$212m in equity via a share placement to a subsidiary of China First Capital Group, a listed Hong Kong-based investment company, with payment being made in two tranches.

The first tranche of the placement, totalling \$64 million, was received in February 2017, however, our counterparty was unable to complete the second tranche payment on a timely basis. As a result, G8 undertook a domestic share placement on 23 May to raise approximately \$100m which, together with a reduced second tranche of \$32m from China First Capital, will see the Group increase its capital base by approximately \$200 million.

Proceeds from the placement will be used to assist in the funding of the Group's child care centre acquisition pipeline which totals approximately \$200m over the next 2.5 years. It will also allow the Group to reduce debt, providing greater financial flexibility to pursue growth opportunities as they arise.

During the 2016 year we undertook a comprehensive review of our remuneration framework to ensure our remuneration policies and settings allowed us to attract and retain quality leaders. With the assistance of remuneration consultants, the Group finalised its proposed framework and implemented changes to fixed remuneration during 2016.

The last remaining component of the proposed remuneration framework is the Group's Long-term incentive plan, which has been designed to ensure alignment between executive management and shareholders. Our Chair of the People & Culture Committee, Susan Forrester, will be providing further detail on the long-term incentive plan during this meeting.

Since our last AGM, there has been significant change in the executive leadership of the Group. After joining the Group in July 2016 as CFO, Gary Carroll was appointed as CEO and Managing Director of the Group on 1 January 2017, replacing our founding Managing Director, Mr Chris Scott.

A number of changes to the executive management team have been completed in the last 5 months, with the structure and capability of the team being aligned to deliver against the Group's strategic plan.

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After founding the Group in 2010 and leading it to its current position as Australia's leading for profit early education provider, Chris handed the executive reins to Gary in January. Over the last few months Chris has been instrumental in securing the equity injection from China First Capital Group and has been working on evaluating any potential growth opportunities in China.

With this work now complete, Chris has decided not to seek re-election and will be retiring from the G8 Education Board at the end of this meeting. On behalf of the Board, shareholders and the broader G8 team, I would like to thank Chris for the immense contribution he has made to the Group. Without his skills, energy and drive the Group would not be what it is today.

I know Chris detests the spotlight and has chosen not to attend today's meeting to avoid such attention, but I feel his contribution should be formally celebrated and recognised. Accordingly, can I ask for everyone to join me in a round of applause to thank Chris for his contribution to the Group.

In closing, I would like to thank all G8 team members for their fantastic contribution throughout the whole year. Their passion, dedication and skill make all of us very proud. I would also like to thank shareholders for their continued support during the year. The investments we have made during the year have us well placed to deliver on our strategy in the coming years, with growth being generated via both organic and acquisition opportunities.

I will now hand over to our Managing Director, Gary Carroll, who will provide an update on our trading performance for the 2017 year, as well as an update on the progress of our Group strategy.

Thank you

ENDS
Mark Johnson
Chairman